

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2012-7-G - ORDER NO. 2012-789
OCTOBER 11, 2012

IN RE:	Application of Piedmont Natural Gas)	INITIAL ORDER
	Company, Incorporated to Have the Terms of)	APPROVING
	the Natural Gas Rate Stabilization Act Apply)	QUARTERLY
	to the Company's Rates and Charges for Gas)	MONITORING REPORT
	Distribution Services)	AND ADOPTING
)	SETTLEMENT
)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (the Commission) pursuant to S.C. Code Ann. §§ 58-5-420(2) and 58-5-455, a portion of the Natural Gas Rate Stabilization Act, as related to Piedmont Natural Gas Company, Inc. (Piedmont or the Company). Order No. 2005-491 established a baseline return on equity for the Company under the Act, based on the Company's last rate case. See Order No. 2002-761. Section 58-5-455 sets out a procedure for the handling of monitoring reports under the Act related to the quarter ending March 31, which we detailed in Order No. 2005-491 at 5.

Briefly, under Section 58-5-455, the Company files the monitoring reports with the Commission and the Office of Regulatory Staff (ORS). Parties may comment on the reports. Where it appears to the Commission or ORS that an adjustment in rates may be warranted, ORS shall conduct an audit of the monitoring report and specify any changes that it determines are necessary to correct errors in the report or to otherwise bring the

report into compliance with the statute. Parties may comment on the ORS audit. On or before October 15, the Commission shall issue an initial order setting forth any changes required in the utility's request to adjust rates under the statute. Any gas rate adjustments authorized under the terms of the statute shall take effect for all bills rendered on or after the first billing cycle of November of that year. This present order is the "initial order" contemplated by S.C. Code Ann. Section 58-5-455 for Piedmont.

Pursuant to the South Carolina Natural Gas Rate Stabilization Act ("Act"), Piedmont submitted its quarterly monitoring report for the twelve-month period ending March 31, 2012, as well as the required revenue calculations and any proposed changes to its tariff rates necessary to permit Piedmont the opportunity to earn the rate of return on common equity established in its last general rate case as specified in Section 58-5-420(1).

The ORS conducted a review of Piedmont's Monitoring Report for the twelve-month period ending March 31, 2012, to evaluate compliance with Section 58-5-430 and Section 58-5-440 of the Act. The ORS proposed certain adjustments to reported amounts to bring the report into conformance with those sections. Piedmont filed written comments advising the Commission that Piedmont had no objection to or comments on the findings and adjustments reflected in the ORS Audit Report.

A Settlement Agreement was reached by and among Piedmont and ORS (collectively, the Parties). The Settlement Agreement and exhibits are attached hereto as Order Exhibit 1. Under the terms of the Settlement Agreement, Piedmont will implement rates for the twelve-month period beginning with the first billing cycle of November

2012, calculated on the basis of an 11.3% return on equity (ROE). The Parties agree that Piedmont will adopt the accounting adjustments of ORS as set forth in Schedule 2 attached to the Settlement Agreement. The Parties further agree that, based upon the accounting adjustments proposed by ORS and adopted by Piedmont, and the agreement of Piedmont to implement rates based upon an 11.3% ROE, South Carolina ratepayers will realize a decrease in current margin rates totaling \$1,120,000. The Settlement Agreement states that this equates to a reduction of \$2,392,798 for South Carolina ratepayers when compared to rates calculated on Piedmont's authorized 12.6% ROE, which was authorized by Commission Order Nos. 2002-761, 2005-491, and 2005-567. The Parties further agree to an increase in demand cost of \$270,480 due to a demand cost under-recovery.

We have examined the accounting and pro forma adjustments proposed and agreed upon by the parties, as well as the Settlement Agreement, and we take no exception to them.

FINDINGS AND CONCLUSIONS

1. S.C. Code Ann. Section 58-5-455, a portion of the Natural Gas Rate Stabilization Act, requires the filing of certain documents and the issuance of this Initial Order.
2. Changes are required to the Company's request to adjust rates.
3. ORS has suggested certain changes to which Piedmont does not object, as outlined above. Indeed, the parties have reached a Settlement Agreement.

4. This Commission has found no other changes appropriate or necessary other than those agreed to by the parties.

5. The Settlement Agreement is approved. This Commission adopts the changes and adjustments proposed by the parties and the resulting rates and charges.

6. The new approved rates and charges shall be effective for bills rendered on and after the first billing cycle in November 2012, subject to changes under the Company's Gas Cost Recovery Mechanism.

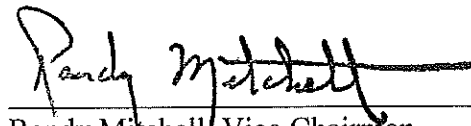
7. If it has not already done so by the date of issuance of this Order, the Company shall file its revised tariff utilizing the Commission's e-filing system for tariffs prior to its first billing cycle in November 2012. The revised tariff should be electronically filed in a text searchable PDF format using the Commission's DMS System (<http://dms.psc.sc.gov>). An additional copy should be sent via email to etariff@psc.sc.gov to be included in the Commission's ETariff System (<http://etariff.psc.sc.gov>). Future revisions to the tariff should be made using the ETariff System. The revised tariff shall be consistent with the findings of this Order and shall be consistent with the Commission's Rules and Regulations, as well as the provisions of the Settlement Agreement.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


David A. Wright, Chairman

ATTEST:



Randy Mitchell, Vice Chairman
(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2012-7-G

August 31, 2012

IN RE:

Application of Piedmont Natural Gas)	
Company, Incorporated to Have the Terms)	
of the Natural Gas Rate Stabilization Act)	SETTLEMENT AGREEMENT
Apply to the Company's Rates and Charges)	
for Gas Distribution Services)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "Act") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2011), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2012 for the review period consisting of April 1, 2011 through March 31, 2012 ("Review Period");

WHEREAS, the Report of ORS's examination of PNG's Monitoring Report for the Twelve-Month Period Ending March 31, 2012, pursuant to the Act, was filed with the Commission on August 31, 2012;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and

WHEREAS, following those discussions, the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2012 calculated on the basis of an 11.3% Return on Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Settlement Schedule 1 (Net Operating Income and Rate of Return); Settlement Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Settlement Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 11.3% ROE, South Carolina ratepayers will realize a decrease in current margin rates totaling \$1,120,000. This equates to a reduction of \$2,392,798 for South Carolina ratepayers when compared to rates calculated on PNG's authorized 12.6% ROE.

5. The Parties agree to an increase in demand cost of \$270,480, due to a demand cost under-recovery.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

8. This Settlement Agreement shall be interpreted according to South Carolina law.

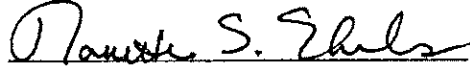
9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

August 31, 2012

[SIGNATURE PAGES FOLLOW]

WE AGREE:

Representing and binding the Office of Regulatory Staff

A handwritten signature in cursive script, appearing to read "Nanette S. Edwards", is written over a horizontal line.

Nanette S. Edwards, Esquire

Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201


Phone: (803) 737-0575

Fax: (803) 737-0895

Email: nsedwar@regstaff.sc.gov

WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.



James H. Jeffries, IV, Esquire
Moore & Van Allen, PLLC
100 North Tryon Street, Ste. 4700
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Settlement Schedule 1

Piedmont Natural Gas Company
 South Carolina Operations
 Net Operating Income and Rate of Return
 For the Test Year Ended March 31, 2012
 Docket No. 2012-7-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Decrease	(5) Adjustment for Demand Cost Under-Recovery	(6) Total After Proposed Rates
Operating Revenues						
1 Sale and Transportation of Gas	\$ 122,478,111	\$ 1,032,747	\$ 123,510,858	\$ (1,120,000)	\$ 270,480	\$ 122,661,338
2 Other Operating Revenues	826,961	0	826,961			826,961
3 Total Operating Revenues	123,305,072	1,032,747	124,337,819	(1,120,000)	270,480	123,488,299
Operating Expenses						
4 Cost of Gas	57,111,653	(454,067)	56,657,586		268,282	56,925,868
5 Operations and Maintenance	27,107,752	(883,767)	26,223,985	(3,495)	844	26,221,334
6 Depreciation	11,799,336	(605,626)	11,193,710			11,193,710
7 General Taxes	6,504,269	(30,125)	6,474,144		1,354	6,469,891
8 State Income Taxes	987,637	(31,688)	955,949	(55,545)		900,404
9 Federal Income Taxes	4,892,591	1,441,668	6,334,259	(369,373)		5,964,886
10 Amortization of Investment Tax Credits	(30,570)		(30,570)			(30,570)
11 Total Operating Expenses	108,372,668	(563,605)	107,809,063	(434,020)	270,480	107,645,523
12 Net Operating Income	14,932,404	1,596,352	16,528,756	(685,980)	0	15,842,776
13 Interest on Customers' Deposits	(140,887)		(140,887)			(140,887)
14 Amortization of Debt Redemption Premium	0		0			0
15 Allowance for Funds Used During Construction	182,341		182,341			182,341
16 Customer Growth	64,284	6,790	71,074	(2,950)		68,124
17 Net Operating Income for Return	\$ 15,038,142	\$ 1,603,142	\$ 16,641,284	\$ (688,930)	\$ 0	\$ 15,952,354
Rate Base:						
18 Plant in Service	\$ 403,626,600		\$ 403,626,600			\$ 403,626,600
19 Accumulated Depreciation	(176,816,989)		(176,816,989)			(176,816,989)
20 Net Plant in Service	226,809,611	0	226,809,611			226,809,611
Add:						
21 Construction Work in Progress	5,713,894		5,713,894			5,713,894
22 Materials and Supplies	13,970,190		13,970,190			13,970,190
23 Cash Working Capital	582,239	(110,471)	471,768			471,768
Deduct:						
24 Customers' Advances	0		0			0
25 Customers' Deposits	3,835,881		3,835,881			3,835,881
26 Accumulated Deferred Income Taxes	55,326,492		55,326,492			55,326,492
27 Unclaimed Funds	103,991		103,991			103,991
28 Total Rate Base:	\$ 187,809,570	\$ (110,471)	\$ 187,699,099			\$ 187,699,099
29 Rate of Return	8.01%		8.87%			8.50%
30 Return on Equity	10.37%		11.99%			11.30%

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2012
Docket No. 2012-7-G

Line No.	Description	Per Piedmont	Per ORS
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase revenues on a going-level basis.	\$ 1,032,747	\$ 1,032,747
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 1,032,747	\$ 1,032,747
2	<u>Cost of Gas</u>		
	To decrease cost of gas on a going-level basis.	\$ (454,067)	\$ (454,067)
	<u>Total Cost of Gas</u>	\$ (454,067)	\$ (454,067)
3	<u>Operations and Maintenance Expenses</u>		
a.	To annualize the payroll expense as of March 31, 2012 in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (727,086)	\$ (727,086)
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(32,684)	(32,684)
c.	To adjust pension costs included in the filing.	106,099	106,099
d.	To adjust uncollectible gas margin utilizing the method approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. The applicable uncollectible margin rate is .31209%.	(19,285)	(19,285)
e.	To decrease expenses for allocations to non-utility activities.	(27,186)	(27,186)
f.	To increase expenses for the Long-Term Incentive Plan.	210,800	210,800
g.	To decrease expenses for the Short-Term Incentive Plan.	(182,055)	(182,055)
h.	To decrease expenses for the MVP Incentive Plan.	(141,069)	(141,069)
i.	To increase expenses for group insurance.	73,343	73,343
j.	To increase expenses for the Piedmont Town Center lease.	27,983	27,983
k.	To increase expenses for Piedmont Town Center CAM expense.	4,162	4,162
l.	To increase expenses for amortization of early retirement incentive.	151,229	151,229

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2012
Docket No. 2012-7-G

Line No.	Description	Per Piedmont	Per ORS
m.	To increase expenses for the South Carolina assessment fee.	(7,262)	2,586
n.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(154,180)	(321,222)
o.	To adjust for Gas Technology Institute expenses.	0	0
p.	To adjust for South Carolina Environmental expense.	123,601	(9,382)
	Total Operations and Maintenance Expense	\$ (593,590)	\$ (883,767)
4	Depreciation Expense		
	To decrease depreciation expense on a going-level basis using the most current depreciation study rates.	\$ (605,626)	\$ (605,626)
	Total Depreciation Expense	\$ (605,626)	\$ (605,626)
5	General Taxes		
a.	To increase property taxes on a going-level basis.	\$ 56,424	\$ 56,424
b.	To decrease payroll tax expense.	(91,719)	(91,719)
c.	To increase franchise taxes (rate of .3%) and gross receipts tax (rate of .200616%) for the adjustment made to increase revenues on a going-level basis.	0	5,170
	Total General Taxes	\$ (35,295)	\$ (30,125)
6	State Income Taxes		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ (45,896)	\$ (31,688)
	Total State Income Taxes	\$ (45,896)	\$ (31,688)
7	Federal Income Taxes		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 1,347,188	\$ 1,441,668
	Total Federal Income Taxes	\$ 1,347,188	\$ 1,441,668

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2012
Docket No. 2012-7-G

Line No.	Description	Per Piedmont	Per ORS
8	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .430%) following the adjustments to operating revenues and expenses.	\$ 6,113	\$ 6,790
	<u>Total Customer Growth</u>	<u>\$ 6,113</u>	<u>\$ 6,790</u>
9	<u>Cash Working Capital</u>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (74,199)	\$ (110,471)
	<u>Total Cash Working Capital</u>	<u>\$ (74,199)</u>	<u>\$ (110,471)</u>
10	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease revenues from the sale and transportation of gas for the proposed margin decrease. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 1,272,798	\$ (1,120,000)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 1,272,798</u>	<u>\$ (1,120,000)</u>
11	<u>Operations and Maintenance Expenses</u>		
a.	To adjust the provision for uncollectible accounts (.31209%) for the proposed margin decrease.	\$ 3,972	\$ (3,495)
b.	To adjust Gross Receipts tax for the proposed margin decrease (rate of .23063%).	2,935	0
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 6,907</u>	<u>\$ (3,495)</u>
12	<u>General Taxes</u>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .200616%) for the proposed margin decrease.	\$ 3,798	\$ (5,607)
	<u>Total General Taxes</u>	<u>\$ 3,798</u>	<u>\$ (5,607)</u>

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2012
Docket No. 2012-7-G

Line No.	Description	Per Piedmont	Per ORS
13	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin decrease.	\$ 63,105	\$ (55,545)
	<u>Total State Income Taxes</u>	\$ 63,105	\$ (55,545)
14	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin decrease.	\$ 419,646	\$ (369,373)
	<u>Total Federal Income Taxes</u>	\$ 419,646	\$ (369,373)
15	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .430%) following the proposed margin decrease.	\$ 3,355	\$ (2,950)
	<u>Total Customer Growth</u>	\$ 3,355	\$ (2,950)
16	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase the revenue requirement for the sale and transportation of gas associated with demand cost under-recovery.	\$ 270,538	\$ 270,480
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 270,538	\$ 270,480
17	<u>Cost of Gas</u>		
	To increase cost of gas for the demand cost under-recovery using a demand cost allocation factor of 16.01%, based upon the most recent design day study.	\$ 268,282	\$ 268,282
	<u>Total Cost of Gas</u>	\$ 268,282	\$ 268,282

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2012
Docket No. 2012-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
18	<u>Operations and Maintenance Expenses</u>		
a.	To increase the provision for uncollectible accounts (rate of .31209%) following the adjustment for demand cost under-recovery.	\$ 837	\$ 844
b.	To increase the SC Assessment fee (rate of .23083%) following the adjustment to operating revenues.	619	0
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 1,456</u>	<u>\$ 844</u>
19	<u>General Taxes</u>		
	To increase the franchise taxes (rate of .3%) and gross receipts tax (rate of .200616%) for the adjustment to revenue for demand cost under-recovery.	\$ 800	\$ 1,354
	<u>Total General Taxes</u>	<u>\$ 800</u>	<u>\$ 1,354</u>

Piedmont Natural Gas Company
South Carolina Operations
Weighted Cost of Capital
For the Test Year Ended March 31, 2012
Docket No. 2012-7-G

Settlement Schedule 3

Description	Capital Structure	Ratio	Regulatory Per Books			As Adjusted			After Proposed Decrease					
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Net Operating Income
Long-Term Debt	949,836,809	47.00%	88,270,498	5.34%	2.51%	4,713,645	88,218,576	5.34%	2.51%	4,710,872	88,218,576	5.34%	2.51%	4,710,872
Common Equity	1,071,092,572	53.00%	99,539,072	10.37%	5.50%	10,324,497	99,480,522	11.99%	6.36%	11,930,412	99,480,522	11.30%	5.99%	11,241,482
Total	2,020,929,381	100.00%	187,809,570		8.01%	15,038,142	187,699,099		8.87%	16,641,284	187,699,099		8.50%	15,952,354